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SUBJECT: Continued high wage growth in Latvia and its effect on
Embassy Riga

¶1. According to the Latvian Central Statistics Bureau, the average gross monthly salary in Latvia in Q1 grew by 28.1% year-on-year. In absolute figures this translates into an increase from LVL 354 to 453 (USD 787 to 1007). Gross salaries grew by slightly more in the private sector than in the public sector -- 28.6% and 27.2%, respectively. The average salary in the private sector, however, was still lower than in the public sector, LVL 424 (USD 942) and LVL 516 (USD 1147) respectively. Due to a recent increase in tax deductions for dependents, the average net wage growth - 29.7% -- exceeded average gross wage growth. Assuming an inflation rate of 16.4%, the real average wage increased by 11.4%.

¶2. In March 2008, the average gross monthly salary in Riga in the public sector reached LVL 640 (USD 1422). In the context of Post's wage issues, more than a half - 54%, of local staff receive a salary that is below this level.

¶3. In response to the worsening economic conditions in Latvia, particularly soaring consumer price inflation, the government announced plans to increase the minimum monthly salary and minimum hourly rate by 12.5%, effective January 1st 2009. Currently, the minimum gross monthly salary is LVL 160 (USD356) and the minimum hourly rate is LVL 0.962 (USD 2.14); after the increase, the minimum monthly salary and hourly rate will be LVL 180 (USD 400) and LVL 1.083 (USD 2.41), respectively.

¶4. The economic turbulence in Latvia is continuing. The producer price index, which serves as a good indicator for consumer price inflation, increased in April to 3.3% month-on-month. With consumer price inflation nearing twenty percent (17.9% in May, year-on-year) every report of increasing inflationary pressures is perceived very sensitively. The other major concern remains excessive economic slowdown or even a recession, especially in light of Q1 growth dropping to 3.3 year-on-year.

¶5. Comment: Despite all the promises from government officials that inflation will drop later this year, it continues to grow. The explosive wage growth, combined with global spikes in energy and food prices, only contribute to inflationary pressures. We are very skeptical that Latvia can get out of double digit inflation before the end of the year. Whatever the macroeconomic and political implications of Latvia's economy increasingly likely hard landing, this issue is much more personal for us. Our FSN staff has seen their 2007 wage increase - average five percent - delayed in implementation and completely eaten away by inflation. FSN morale continues to plummet and many of our local employees have either left the Embassy or make no effort to hide that they are planning to do so as soon as they can find another job. Given the continued wage growth and overall economic situation in Latvia, we urge Washington to budget for full implementation of the wage increase recommendation that emerges from the salary survey as was done this year. To put it bluntly, we are already facing a crisis which will only get worse if nothing is done.

Seldowitz